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JUL 17 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
1998 Biennial Regulatory Review--	)	CC Docket No. 98-81
Review of Accounting and Cost Allocation	)	
Requirements	)	
	)	
United States Telephone Association	)	ASD File No. 98-64
Petition for Rulemaking	)	

COMMENTS
OF THE
<u>UNITED STATES TELEPHONE ASSOCIATION</u>

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SUMMARY

The proposals in the NPRM, while of benefit to mid-sized carriers, do not go far enough in providing regulatory streamlining to all incumbent LECs to satisfy the Commission's obligations under Section 11 of the Telecommunications Act of 1996. USTA has been analyzing the current Part 32 and 64 rules and has provided the Common Carrier Bureau staff with its recommendations. USTA urges the Commission to adopt USTA's specific proposals to streamline the accounting and cost allocation rules. USTA's proposals meet the Section 11 requirements, are consistent with the pro-competitive, de-regulatory goals of the Telecommunications Act, reflect the current telecommunications environment and will remove regulations developed for traditional cost of service regulation from carriers operating under price cap regulation.

Among USTA's recommendations are to eliminate Class A accounting for all incumbent LECs. USTA points out that contrary to the NPRM, neither the volume of transactions, other statutory obligations, jurisdictional separations nor pole attachment formulas require the use of Class A accounting. While USTA agrees that if Class A accounting is not eliminated for all carriers, the revenue thresholds should be increased and should be the same for Parts 32 and 64. However, the Commission should ensure that any carrier below the threshold is not required to file a CAM or to conduct an audit.

USTA urges the Commission to move toward permitting carriers to utilize GAAP accounting. In order to accomplish that goal, USTA recommends the following changes: adopt Class B accounting for all LECs, streamline property records and depreciation as defined in Part 32.2000, eliminate the expense matrix as well as other mandated subsidiary records, eliminate

the notification requirements to conform to GAAP, adopt the same materiality standards as GAAP, adopt GAAP requirements for inventories, eliminate jurisdictional difference accounts and consolidate the tax accounts.

USTA also recommends that the Part 64 cost allocation rules be eliminated. USTA provides nine specific proposals which would permit the Commission to move toward that objective: eliminate the external audit, eliminate the 15-day notice period for filing certain CAM changes, eliminate the requirement to quantify the CAM changes, eliminate the nonregulated product matrix from the CAM, eliminate the requirement to treat competitive tariffed regulated services as nonregulated for accounting purposes, reduce reporting of affiliates and affiliate transactions, streamline the valuation of affiliate transactions, exempt from reporting as nonregulated those activities that have incurred only a de minimis amount of revenue, and allow the use of fixed factors.

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COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association (USTA) respectfully submits its comments in the above-referenced proceeding. USTA is the principal trade association of the local exchange carrier (LEC) industry. Its members provide over 95 percent of the incumbent LEC-provided access lines in the U.S. USTA's members are subject to the accounting and cost allocation rules at issue in this proceeding. These companies seek relief from the current burdensome accounting and cost allocation requirements as discussed below.

I. INTRODUCTION.

Pursuant to Section 11 of the Telecommunications Act of 1996, the Commission is required to examine all of its rules and to eliminate or modify those rules which no longer serve the public interest.[1] On June 17, 1998, the Commission released a *Notice of Proposed*

[1]Section 11 of the Communications Act of 1934, as amended, requires the Commission, in every even-numbered year beginning in 1998, to review its regulations applicable to providers of

Rulemaking (NPRM) proposing to modify its accounting and cost allocation rules as part of the Section 11 biennial review. The Commission's proposals provide a much needed first step toward eliminating unnecessary regulations and will significantly reduce regulatory burdens for mid-sized carriers currently using Class A accounting. However, USTA believes that the Commission must go much further to streamline its requirements in order to meet its statutory obligations. As will be explained below, USTA has been analyzing the current Part 32 and 64 rules pursuant to Section 11 and has shared its analysis with the Common Carrier Bureau (Bureau) staff in an effort to gain regulatory relief for all carriers. Unfortunately, it appears that the majority of USTA's suggestions that have been provided to the Bureau were not included in the NPRM. The NPRM ignores the carriers that provide nearly 90 percent of the telecommunications industry's revenues by omitting the largest companies from the NPRM's proposals to provide relief from the Class A accounting[2] and from the selected Cost Allocation Manual (CAM) reporting requirements. Thus, the NPRM does not meet the Commission's obligations under Section 11 of the Telecommunications Act of 1996.

Despite the Section 11 directive, the NPRM proposes to continue into the future the accounting and cost allocation rules which originally were designed for use with "cost-based rate

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telecommunications services to determine whether the regulations are no longer in the public interest due to meaningful economic competition between providers of such service and whether such regulations should be repealed or modified.

[2] NPRM at ¶ 4.

of return regulation". In fact, the NPRM proposes to continue to impose burdensome Class A accounting requirements, as well as all of the CAM requirements, on only those companies that are not subject to rate of return regulation, but are instead subject to price cap regulation. Rather than maintain rules designed for cost-based regulation and apply them to price cap regulated companies, the Commission should replace Class A accounting requirements with Generally Accepted Accounting Principles (GAAP) for all carriers and eliminate requirements to separate costs between regulated and nonregulated activities.

II. THE COMMISSION SHOULD ADOPT USTA'S PROPOSALS TO STREAMLINE THE ACCOUNTING AND COST ALLOCATION RULES.

In response to a request from the Common Carrier Bureau staff, on February 19, 1998 USTA provided specific proposals to streamline the accounting and cost allocation rules. These proposals reflect USTA's analysis of the objectives of the Telecommunications Act of 1996 to implement a pro-competitive, de-regulatory national telecommunications policy as well as the current status of the telecommunications market. USTA member representatives met with the Bureau staff on May 1, 1998, to discuss USTA's proposals as well as to respond to the staff's request for additional suggestions. Finally, on June 4, 1998, USTA member representatives provided further information to the staff. In addition, several of USTA's members filed detailed proposed changes to these rules.[3] Finally, SBC Communications, Inc. (SBC) filed a Petition for

[3] *See,* Letters from Robin Gleason, Ameritech, to Ken Moran, March 13, 1998; Gerald Asch, Bell Atlantic, to Jose Rodriguez, March 12, 1998 and March 24, 1998; B. Jeannie Fry, SBC, to Ken Moran, April 7, 1998 and Robert Blau, BellSouth, to Richard Metzger, March 13, 1998.

Section 11 Biennial Review on May 8, 1998 which also included changes to these rules. Practically none of these proposed changes were included in the NPRM. Furthermore, pending Petitions for Reconsideration in CC Docket No. 96-150 which would also streamline the rules, have not been acted upon.[4]

Appended hereto at Attachment I are USTA's proposals to streamline the current rules. Also attached are complete marked up versions of the current Part 32 rules (Attachment II) and Part 64 rules (Attachment III) which reflect USTA's proposals. USTA urges the Commission to adopt these proposals. USTA's proposals are supported by and are consistent with the July 15, 1998 ex parte filing of Arthur Anderson LLP.

The telecommunications industry has changed dramatically in the last ten years. Many of the accounting and cost allocation rules implemented a decade ago are no longer compatible with the changes occurring in the telecommunications industry. The form of regulation for the largest carriers has changed, competition has increased and the rapid changes in technology have rendered many regulations obsolete. USTA has long been concerned about the impact of regulation on the efficient provision of telecommunications services in the U.S. In a paper prepared for USTA, Dr. Richard Schmalensee and William Taylor of the National Economic Research Associates observed,

[4] *See,* Petitions for Reconsideration filed February 20, 1997, CC Docket No. 96-150 filed by Ameritech, Cincinnati Bell, GTE, SBC and SNET.

> The social costs of regulatory constraints that artificially increase costs and fail to provide meaningful consumer benefits and/or protections can be staggering. This is especially the case in a rapidly changing and dynamic telecommunications environment...Estimates of the potential welfare gains to society from deregulating telecommunications--and actual experience in other industries--highlight what is at stake before the Commission. Maintaining unneeded regulatory constraints on markets long after they are no longer required has imposed significant economic costs on U.S. consumers. In a 1996 study, Crandall and Waverman estimate that the net gains from telecommunications deregulation that leads to more efficient pricing is almost $30 billion. That same year, Crandall and Furtchgott-Roth analyzed the cable TV industry during, *inter alia,* the period when services were deregulated. They found that households were collectively $6.5 billion a Year better off with cable's service in 1992 (after deregulation) than with those of 1983-84 (before deregulation). Moreover, viewers had many more and better-quality viewing choices during the period of deregulation. Earlier, Clifford Winston analyzed the welfare effects of deregulation in airlines, railroads and trucking and found comparable net gains in welfare: in total, at least $36-$46 billion (1990) annually from deregulation with the bulk of the benefits going to consumers.[5]

Arthur Andersen's overall conclusion is that Part 32 does not reflect the existing regulatory and competitive paradigm and imposes unnecessary and costly constraints on carriers subject to its requirements.[6] In fact, the accounting firm finds that Part 32 no longer accomplishes its objectives.[7] While some regulatory requirements and processes are being streamlined and simplified, the accounting and cost allocation requirements are not keeping pace

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[5]Richard Schmalensee and William Taylor, "The need for Carrier Access Pricing Flexibility in Light of Recent Marketplace Developments," (1998) at pp. 5,7 (footnotes omitted).

[6]Arthur Andersen at 1.

[7]Arthur Andersen at 2.

and are becoming more onerous given the other changes in the industry. For example, the recent RAO letter (RAO 26) substantially increased the requirements of Section V of the Cost Allocation Manual (CAM).[8] In RAO 26, the Bureau has changed its approach from that of providing broad policy guidance to that of micro managing carrier business procedures through detailed reporting instructions. As a result, the regulatory requirements for Section V increased from 11 lines (a portion of RAO 19) to 300 lines (the entire RAO 26). Such detailed regulation is not necessary in the current environment and is not in the public interest.[9] Pursuant to the competitive policy required by the Telecommunications Act, it does not make sense for the federal government to impose burdensome and costly regulations on one class of competitor while permitting other competitors complete freedom from regulation.

III. THE COMMISSION SHOULD ELIMINATE CLASS A ACCOUNTING FOR ALL INCUMBENT LECS.

USTA strongly supports the NPRM's proposal to relieve mid-size carriers of Class A accounting requirements and commends the Commission for proposing this long overdue change.[10] However, such relief should be provided to all incumbent LECs.

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[8]RAO Letter 26, DA98-855, May 6, 1998.

[9]*See*, Applications for Review filed by the SBC LECs on June 5, 1998 and by BellSouth on June 4, 1998 and USTA Comments filed July 13, 1998.

[10] NPRM at ¶5.

A. The Volume of Transactions for the Largest LECs Does Not Justify Maintaining Class A Accounts.

Contrary to the assumptions contained in the NPRM, the volume of transactions involving competitive services, even for the largest LECs, is relatively small. Factual information for telecommunications carriers is contained in the ARMIS reports filed each year with the Commission. For 1997, Line 750 of the 43-03 report shows each carrier's total costs and the portion assigned to nonregulated products and services. Likewise, Line 2001 shows each carrier's total assets and the portion of those assets used to provide nonregulated products and services. The following table reflects the aggregate amount and percentage for the largest LEC carriers taken from that report.

COMPARISON OF LEC RESULTS

1997 ARMIS 43-03[11]

(Dollars are in Billions)

	BOCs and GTE			Other 43-03 Companies		
ARMIS Line No.	Nonreg	Total	Nonreg Percent	Nonreg	Total	Nonreg Percent
Line 750 Total Expense	$5.6	$83.7	7%	$0.9	$9.4	10%
Line 530 Total Opera-ting Revenue	$5.4	$93.9	6%	$0.9	$11.2	8%
Line 2001 Total Plant In Service	$5.6	$279.0	2%	$0.5	$30.9	2%

[11] Results obtained from Bellcore Data Base. Nonregulated is contained in column J. Column B is the total. Nonregulated Percent has been calculated by dividing Column J by Column B and is rounded to the nearest whole percent.

This data clearly shows that the amount of industry activity related to nonregulated products and services is nominal even for the largest LECs.

In addition, these carriers are subject to price cap regulation. Price cap regulation breaks the link between costs and rates. Once the rates for price capped services are established, prices are regulated by the price cap formula, not by the allocation of costs. Since prices are capped, changes in cost allocation do not affect prices. Thus, price cap carriers may charge the capped price whether or not its costs for the regulated service change. Regardless of the volume of transactions undertaken by these carriers, under price cap regulation, the risk of cross subsidization of competitive products and services is non-existent.

B. The Commission Can Meet its Statutory Obligations Without Requiring Class A Accounts.

Further, contrary to the assumptions of the NPRM, Class A accounting is not necessary to uphold statutory obligations under sections 254(k), 260, 271, 272, 273, 274, 275, and 276 of the Act.[12] Section 254(k) refers to services included in the universal service definition and relates to the universal service funding an eligible carrier receives from the Universal Service Fund Administrator. In fact, the Commission has interpreted the 254(k) statutory obligation as one which require carriers to give Lifeline payments from the Universal Service Fund directly back to the end customer.[13] It does not require carriers to maintain Class A accounting. Likewise, the

[12] NPRM at ¶ 6.

[13] Federal-State Joint Board on Universal Service, *Report and* Order, CC Docket 96-45, (FCC 97-157) 12 FCC Rcd 8776 (rel. May 8, 1997) at ¶366.

Section 260, 271, 275 and 276 requirements that telephone exchange services not subsidize telemessaging, incidental interLATA, alarm monitoring and payphone services do not require Class A accounting. As noted above, cross subsidy is effectively eliminated by price cap regulation. Sections 272, 273, and 274 contain requirements for separate affiliates, not for incumbent LECs. None of the sections of the Act identified in the NPRM require a carrier to maintain Class A Accounts.

It is not clear how Class A accounting could be useful in identifying the lobbying expense of the carriers as claimed in the NPRM.[14] There is no Class A account called lobbying expense. Class A accounting combines lobbying expense with contributions for charitable, social or community welfare purposes; membership fees and dues; penalties and fines paid on violations of statutes; and abandoned construction projects.[15] The Class A rules, by themselves, could not have identified lobbying costs for auditing purposes. These costs must be identified through separate information requests.

The Commission has a clear mandate under Section 11 of the Telecommunications Act to "repeal or modify any regulation it determines to be no longer necessary in the public interest."[16]

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[14] NPRM at ¶ 6, Footnote 19.

[15] 47 CFR 32.7370

[16] NPRM at 1.

There simply is no basis to continue to impose Class A accounting requirements on carriers under price regulation.

C. Class B Accounting Will Not Impact Jurisdictional Separations.

Again, contrary to the assertions in the NPRM. Class B accounting satisfies the reporting requirements for jurisdictional separations since the Commission's separations rules are based on Class B accounts. The NPRM indicates that there are several cases where separations rules require Class A companies to use different procedures than Class B companies.[17] The allocation of General Support Assets is the only instance where a distinction is made between Class A and Class B companies. While it is true that the separations rules do not allocate General Support Facilities (Account 2110 - Land and Support Assets) in the same way for both classes of companies,[18] the allocation "factors" used in the differing methods are still at the **Class B** level for **both** classes of companies. Class B has no effect on the jurisdictional separations of Class A companies and would, in fact, provide greater consistency for carriers subject to the Part 32 and Part 36 rules.

D. Pole Attachment Formulas Should Not be Required to be Reported.

While the Commission notes that pole attachment formulas are based on Class A accounting, there is a less burdensome alternative. As the Commission suggests, maintenance of

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[17]NPRM Footnote 9

[18]Class A uses Big Three Expenses, Class B uses COE, Information Originating/Terminating, and Cable & Wire Facilities Investment

subsidiary record categories for calculating pole attachment fees could be kept if the Commission can justify the need to report pole attachment fee formulas. The Act specifically intended to avoid dual regulation of pole attachment fees. Section 224(b)(1) of the Act preserves state regulation of pole attachments and Section 224(a)(5) excludes incumbent LECs from this Section of the Act. [19] Rather than require subsidiary records to be kept to report such detail on ARMIS reports, the Commission should modify the ARMIS reporting process to no longer require this reporting.

IV. THE INDEXED REVENUE THRESHOLD FOR REPORTING SHOULD BE THE SAME FOR PARTS 32 AND 64.

If the Commission fails to provide any regulatory relief for larger carriers, USTA agrees with the Commission's proposal to increase the indexed revenue threshold and to utilize it for both Part 32 carrier classification purposes and Part 64 cost allocation purposes.[20]

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[19] NPRM at Footnote 22. Section 224(b)(1) of the Telecommunications Act of 1996 provides that, "Nothing in this section shall be construed to apply to, or give the commission jurisdiction with respect to rates, terms, and conditions, or access to poles, ducts, conduits, and rights-of-way as provided in subsection (f) for pole attachments in any case where such matters are regulated by a State." Telecommunications Act Section 224(a)(1) says, "For purposes of this section, the term "telecommunications carrier" (as defined in section 3 of this Act) does not include any incumbent local exchange carrier as defined in section 251(h)."

[20] NPRM at ¶ 8.

V. FURTHER STREAMLINING OF THE CAM REQUIREMENTS MUST BE ADOPTED.

While the NPRM provides a first step to streamline the CAM requirements, the proposals do not go far enough to meet the Section 11 mandate.

As stated above, USTA supports the Commission's proposals to increase the revenue threshold required for Class B accounting and for CAM audit and filing requirements and to utilize the same threshold for Part 32 and 64. However, the Commission also appears to suggest that mid-sized incumbent LECs file CAMS based on the Class B accounts and obtain an attest audit every two years.[21] Under the current Part 64 rules, carriers under the revenue threshold are not required to file a CAM or to conduct any external audit. If the Commission is raising the threshold, yet imposing new requirements on mid-sized carriers, the Commission has not provided sufficient regulatory relief for these companies it is purporting to assist. The Commission should clarify that all carriers under the new revenue threshold are not required to file a CAM and are not required to conduct an external audit.

Further, as explained above, the Commission's tentative conclusion that Class A accounts are necessary to monitor the largest LECs who are no longer on rate of return regulation does not make sense. The current Part 64 rules are based on the principles of cost-causation and require the use of homogenous cost categories called cost pools. The majority of the cost pools that exist today could easily be aggregated to a Class B level. They would still be homogenous, and would

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[21] NPRM at ¶¶10–11.

still reflect a cost-causative allocation methodology. As noted above, the Part 36 separations process uses Class B-driven cost categories for both Class A and Class B companies. In addition, as the Commission itself has already indicated, Part 64 costs are not used to price competitive services.[22] In a competitive environment, no Part 64 allocation should be necessary, particularly a Class A level of allocation.

In order to meet its Section 11 obligation, the Commission should establish a time frame for the elimination of Part 64 cost allocations. The requirement to separate costs between regulated and nonregulated activities is not borne by incumbent LEC competitors, such as IXCs or CLECs. Pursuant to a pro-competitive, de-regulatory policy, incumbent LECs should no longer be required to separate regulated costs from nonregulated costs. The NPRM contains no evidence as to how Part 64 is used to protect customers of companies facing competition and customers of companies under price cap regulation. The Commission should bear a heavy burden to justify the continuation of the current Part 64 rules. In order to meet its Section 11 mandate and to move toward the elimination of the Part 64 rules, the Commission should adopt the following changes.

1). Eliminate the annual external audit required under Part 64. The annual Part 64 external audits were initiated in conjunction with the 1988 CAMs. No incumbent LEC should be

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[22] Separation of Costs of Regulated Telephone Service From Costs of Nonregulated Activities Amendment of Part 31, the Uniform System of Accounts for Class A and Class B Telephone Companies to Provide for Nonregulated Activities and to Provide for Transactions Between Telephone Companies and Their Affiliates, *Report and Order*, CC Docket 86-111, 2 FCC Rcd 1298 (1987) at ¶ 40.

required to continue to pay for expensive annual external audits, which can cost over $1 million a year. In addition to the external audit, incumbent LECs must pay the Bureau annually for a detailed review of the external auditor work papers. Incumbent LECs should no longer be required to pay for both an annual external audit and an annual detailed Bureau review of the same audit. The Telecommunications Act established a sunset period for newly ordered external audits.[23] The Part 64 audit should be discontinued.

2). Eliminate the 15-day notice for filing certain CAM changes. Section 402(b)(2)(B) of the 1996 Act requires that the Commission permit carriers to file CAMs on an annual basis. However, by requiring carriers to file changes in the cost apportionment table and in time reporting procedures 15 days prior to implementing those changes, the Commission has, in effect, required carriers to file CAM changes more often than annually. This requirement defeats the clear intent of the Telecommunications Act. USTA proposes that the 15-day requirement be removed and that the CAM be updated on or before the last working day of the calendar year for all changes that were effective in that calendar year. This will reduce the administrative burden and ensure compliance with the Act.

3). Eliminate the requirement to quantify CAM changes. Carriers that are required to file their CAMs must also estimate the quantification of changes in time reporting procedures, affiliate transactions and cost apportionment tables. It is not the quantification, but the appropriateness of the change itself, that should be the basis upon which a CAM change is

[23]Sections 272(f) and 274(g)(2).

accepted or rejected. Furthermore, for carriers subject to price cap regulation, such an estimate is meaningless. This requirement should be eliminated

4). Eliminate the nonregulated product matrix from the CAM. The nonregulated product matrix contained in Section 2 of the CAM requires account impact by product even though incumbent LECs are not required to track the costs by product.[24] This requirement is overly burdensome and should be eliminated.

5). Eliminate the requirement to treat competitive tariffed regulated services as nonregulated for accounting purposes. Competitive, tariffed, regulated services are reviewed through the tariff process. Nonregulated accounting should not be required for a tariffed service. This requirement makes the Part 64 process unnecessarily complex. For example, a local exchange call that does not cross a LATA boundary can be routed using a signal that does cross a LATA boundary. The signal is classified as incidental interLATA. The current Part 64 rules require that the signal be accounted for separately. Such complexity is unnecessary and should be eliminated.

6. Reduce Reporting of affiliates and affiliate transactions in the CAM. In order to reduce the administrative burden of maintaining the CAM, the chart of affiliates should only include affiliates with assets in excess of $10 million. This would reduce the reporting without significantly impacting telephone company operations. In addition, only those services for

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[24] *See*, RAO 19 at Appendix A, ¶3 and CC Docket No. 86-111, *First Report and Order*, at ¶115.

which annual payments exceed $100,000 should be listed in Section 5 of the CAM. Currently, Section 5 includes minor cash flow exchanges among affiliates that have no meaningful impact on telephone company operations. This section of the CAM should be streamlined.

7). Streamline the valuation of affiliate transactions In the Joint Cost Order, the Commission established standards for transactions between affiliates in order to prevent improper cost shifting. Obviously, this is not relevant for price cap carriers since the costs incurred to provide services are not regulated, only the prices. Further, in a competitive environment, competition is the determinant of price. Thus, in the current telecommunications environment, the impact of affiliate transactions on the prices of regulated products and services is minimized, if not eliminated. The Commission has imposed additional burdensome requirements on incumbent LECs with respect to affiliate transactions, such as requiring fair market value calculations on services provided between affiliates and requiring that nonregulated services provided to a nonregulated affiliate be subject to the affiliate transaction rules. These requirements no longer serve any regulatory purpose and should be eliminated as discussed below.

a). Eliminate the requirement for fair market value calculations on services provided between affiliates. The current requirement to value these service transactions at fully distributed costs is more than sufficient to meet the Commission's needs. Certainly the de-regulatory objectives of the Telecommunications Act do not anticipate multiple layers of regulation. Determining the fully distributed costs of these service transactions is a burdensome process itself. Determining the fair market value in addition adds to the complexity and provides very little additional information for the Commission. At the very least, USTA proposes that the current exemption for affiliates that exist solely to provide service to the corporate family should also be granted for any service provided only within the corporate family.

b). Eliminate the requirement that operating telephone company (OTC) nonregulated activities performed for nonregulated affiliates or nonregulated affiliate services performed for an OTC nonregulated activity be subject to the affiliate transactions rules. The Part 64 rules remove the fully distributed cost of the nonregulated activity from regulation. It is unnecessary to overlay the affiliate transactions rules on the Part 64 allocation process for these activities. In effect, these requirements force incumbent LECs to break down nonregulated costs which have already been removed from regulated operations into amounts attributable to affiliates and nonaffiliates as well as the amounts attributable to each transaction with each affiliate. There is no reason for either the OTC nonregulated activity (or for the affiliate that transacts with an OTC activity) to incur the cost of complying with affiliate transactions rules, especially the rule requiring both a fully distributed cost and estimated fair market value calculation. This is burdensome, costly and unnecessary.

8). Exempt from reporting as nonregulated those activities that have incurred only a de minimis amount of revenue. Currently, the Part 64 rules allow for incidental services which are outgrowths of regulated operations to be accounted for as regulated so long as aggregate revenue for such services do not exceed one percent of a carrier's total revenue over three consecutive years. In order to minimize the reporting burden, this exemption should be extended to nonregulated services that are not an outgrowth of regulated operations, but that have a de minimis amount of revenue to minimize the reporting burden.

9). Allow the use of fixed factors. Currently, the incumbent LECs must maintain processes for hundreds of cost pools. For example, the CAM Uniformity Order required all LECs which file CAMs to include specific cost pools for ten accounts. Accounts such as Motor Vehicles (2112) and Buildings (2121) have eight and nine cost pools, respectively, per account. Cost pools can contain directly assigned costs resulting from various forms of time reporting, or the cost pools can be allocated using extensive studies or complicated allocation formulas. A more simplified, less burdensome method for separating costs should be adopted. Fixed factors, developed from the latest ARMIS 43-03 report, could be used to allocate all costs and could replace the complicated and detailed Part 64 cost allocation process. The use of fixed factors would be easy to implement and would greatly simplify the cost allocation process. It would also make review easier as the Commission would not need an external audit. In addition, the use of fixed factors would facilitate other streamlining as described below.

a). Network usage forecasts would be eliminated. Allocating Central Office and Outside Plant accounts would be simplified by no longer requiring three-year peak usage forecasts.

b). The General Allocator would no longer be calculated on a monthly basis. Currently, the General Allocator is used to allocate unattributable costs that have no causal relationship to either regulated or nonregulated activities. The General Allocator is a rolling average based on operating expenses and is calculated using the three month period two months before the current month. This calculation is cumbersome and requires extensive tracking of specific monthly balances. Since ARMIS is reported annually, the General Allocator should no longer be required to be calculated on a monthly basis.

c). Studies would no longer be required to be calculated on an annual basis. Studies, such as the building floor space study, are currently required to be conducted annually. These studies are labor intensive, time consuming and costly. They do not materially change the allocation of costs to the nonregulated jurisdiction. There is no regulatory purpose for this requirement and it should be eliminated through the use of fixed factors.

VI. FURTHER STREAMLINING OF PART 32 ACCOUNTING RULES MUST BE ADOPTED.

While USTA supports the Commission in its efforts to reduce and eliminate some Part 32 accounts, the modifications proposed in the NPRM do not go far enough to reduce the administrative burdens of the current rules.[25] While consolidating certain Part 32 accounts into a single account is a step in the right direction, meaningful administrative relief can only be achieved by eliminating the exhaustive detail of Class A accounting to the much less

[25] USTA supports the consolidation of accounts identifying Special Work Equipment, Garage Work Equipment and Other Work Equipment. However, the NPRM notes that there are 261 Class A accounts. The NPRM only proposes the consolidation of six accounts into two accounts and the elimination of one account. This amounts to consideration of only 2.7 percent of all the Class A accounts and the reduction of five accounts amounts to a decrease of only 1.9 percent.

burdensome Class B accounting. As the Commission itself acknowledges in proposing to adopt USTA's petition to permit incumbent LECs to record revenues from all nonregulated activities in Account 5280, the current accounting detail places incumbent LECs at a competitive disadvantage.[26] Therefore, USTA believes that the elimination and consolidation of the Part 32 accounts contained in its original recommendations presented to the Bureau and appended hereto should be adopted.

For example, the Commission's proposal to revise Section 32.16 of the rules are insufficient because they do not eliminate the pre-approval process and costly revenue requirement studies and do not facilitate the adoption of Financial Accounting Standards Board (FASB) changes. The unwieldy approval and filing process for changes in GAAP delay implementation and create additional burdens for incumbent LECs. The FASB provides an appropriate process through which proposed changes in GAAP are debated and evaluated. Further oversight is unnecessary. In order to streamline accounting, the Commission should eliminate the pre-approval process, including the revenue requirement study. Incumbent LEC should be permitted to notify the Commission to disclose to the Commission when a new accounting standard will not be adopted.

USTA urges the Commission to work with the LEC industry to establish a plan to replace Part 32 with GAAP. In a pro-competitive, de-regulatory environment, the burdensome and costly accounting and reporting requirements of the incumbent LECs must be eliminated or significantly reduced. Competitors are not subject to these same requirements and can streamline

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[26] NPRM at ¶ 16.